

Department of Revenue

Mission

The mission of the Department of Revenue is to collect, distribute and invest funds for public purposes.

Core Services

- Coordinate, develop and promote programs for collection and investment of public funds
- Provide controls and enforcement for the collection, investment and payment of funds for the Tax Division, Treasury Division, Permanent Fund Dividend Division, and Child Support Services Division
- Provide administrative support for the following authorities, boards, and corporations: Alaska Retirement Management Board; Alaska Mental Health Trust Authority; Office of the Long-term Care Ombudsman; Alaska Municipal Bond Bank Authority; Alaska Natural Gas Development Authority; Alaska Housing Finance Corporation; and Alaska Permanent Fund Corporation

End Result	Strategies to Achieve End Result
A: Maximize compliance with current tax and gaming statutes. <u>Target #1:</u> Percentage of taxes collected compared to taxes due between 92% and 98%. <u>Status #1:</u> Taxes collected compared to taxes due has been between 96% and 105% in the past five years and in FY2009 was 99.9%.	A1: Increase audit coverage (audit activities improve compliance and revenue). <u>Target #1:</u> Open 20 new audit cases (taxpayers that have not been audited by us in the prior five years). <u>Status #1:</u> Forty new audit cases were opened in FY2009 due to an increase in audit staff. These audits will be worked throughout FY2010 in addition to maintaining a target of 20 new audits for that year.
End Result	Strategies to Achieve End Result
B: Maximize the value of the funds under the stewardship of the Treasury Division. <u>Target #1:</u> For the funds under the fiduciary responsibility of the Commissioner of Revenue, exceed the applicable 1-year target returns. <u>Status #1:</u> During FY2009, returns for all of the 10 funds under the fiduciary responsibility of the Commissioner of Revenue exceeded the applicable 1-year target returns.	B1: Portfolio Investment Officer staff is continually upgraded in experience and education. <u>Target #1:</u> Increase average longevity of the investment officers to five years. <u>Status #1:</u> The average longevity of the Treasury investment officers during FY2009 was 4.4 years, an increase over the prior year. <u>Target #2:</u> At least four investment staff will have their Chartered Financial Analyst (CFA) designation. <u>Status #2:</u> As of the end of FY2009, five members of the Treasury investment staff have their Chartered Financial Analyst designation. This exceeds the Treasury Division's target of four.
End Result	Strategies to Achieve End Result
C: Collection and disbursement of child support due to the children served by Child Support Services Division. <u>Target #1:</u> Increase collections by 1.5%, net of Permanent Fund Dividend collections.	C1: Improve the environment necessary for increased collections. <u>Target #1:</u> Ensure that paternities established are at least 95%. <u>Status #1:</u> The percentage of paternities established in

<u>Status #1:</u> FY2009 collections net of Permanent Fund Dividends decreased 0.08% over FY2008. The division saw a 69% increase in unemployment benefit collections; this is an indication of the downturn in the economy as more of our clients are unemployed which results in lower monthly child support payments.	FFY09 was 90%, a decrease of 5% from the prior year. <u>Target #2:</u> Increase cases with orders to 93.5%. <u>Status #2:</u> The division saw a small decrease of 0.9% in the number of cases with orders when compared to the prior fiscal year.
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Performance Detail

A: Result - Maximize compliance with current tax and gaming statutes.

Target #1: Percentage of taxes collected compared to taxes due between 92% and 98%.

Status #1: Taxes collected compared to taxes due has been between 96% and 105% in the past five years and in FY2009 was 99.9%.

Taxes Collected Compared to Taxes Due

Fiscal Year	% of Taxes Collected
FY 2009	99.9%
FY 2008	98.5%
FY 2007	105.4%
FY 2006	96.0%
FY 2005	98.6%

Analysis of results and challenges: This measure is not indicative of compliance efforts by the Tax Division as it is skewed by the fact that the largest taxpayers are paying their taxes, but smaller taxpayers may not be. This measure will be changed in FY2010 to better reflect the compliance of the entire taxpayer base across all tax types.

This percentage is driven primarily by payment of taxes due by Alaska's largest taxpayers and is not indicative of the Division's compliance efforts or taxpayers' compliance with Alaska's tax laws as a whole. Without the ability to reasonably estimate the amount of unreported taxes due to the state and without looking at the entire taxpayer base, this percentage is meaningless as a way to measure the Division's compliance efforts. In FY 2009, most of the largest taxpayers who account for the greatest percentage of the state's revenue paid taxes owed to the state. However, as stated above, this does not provide any feedback regarding our compliance activities. As such, the Division will reassess this performance measure for FY 2010 and future years and come up with a more realistic and meaningful method of measuring our success in tax and gaming compliance.

A1: Strategy - Increase audit coverage (audit activities improve compliance and revenue).

Target #1: Open 20 new audit cases (taxpayers that have not been audited by us in the prior five years).

Status #1: Forty new audit cases were opened in FY2009 due to an increase in audit staff. These audits will be worked throughout FY2010 in addition to maintaining a target of 20 new audits for that year.

Number of New Audit Cases Opened

Fiscal Year	# of Audit Cases
FY 2009	40
FY 2008	78
FY 2007	42
FY 2006	5
FY 2005	14

Analysis of results and challenges: The Tax Division maintains 100% coverage in oil and gas income and production taxes (and new oil and gas audit subjects are not included in this measure). An audit presence in each of the other tax types improves long-term voluntary compliance as well as generates new audit revenues. Furthermore, once established, audit generated revenues tend to recur as taxpayers modify their reporting to become consistent

with the audit findings. Not included in the new audit count are audits of exploration tax credit claims by existing taxpayers. These audits do not meet our definition of "new audits" although they represent new and expanded audit efforts by the division. We exceeded our goal in FY2009 as a result of new and stable audit staff in the Production, Corporate and Excise tax units. As in FY2008, we limited the scope on several audits, choosing to look at several taxpayers with similar audit issues as opposed to conducting a full audit of a few taxpayers. Limited scope audits not only allow us to audit more taxpayers, but they also allow us to focus on audit issues that have a greater return to the State. We also opened several full-scope audits with the intent of looking at all aspects of the taxpayer's business, from internal controls to record keeping to compliance which resulted in fewer new audits from the previous year, but still above our goal.

We view twenty new audit subjects annually as an appropriate target and this remains our goal for FY2010.

B: Result - Maximize the value of the funds under the stewardship of the Treasury Division.

Target #1: For the funds under the fiduciary responsibility of the Commissioner of Revenue, exceed the applicable 1-year target returns.

Status #1: During FY2009, returns for all of the 10 funds under the fiduciary responsibility of the Commissioner of Revenue exceeded the applicable 1-year target returns.

One-year Return Data for Funds Managed by the Treasury Division

Fiscal Year	Fund	Actual Return	Target Return
FY 2009	Gen Fund/Other Non-segregated F	4.24%	3.98%
FY 2009	AK Children's Trust Fund	(20.44%)	(21.46%)
FY 2009	Public School Trust Fund	(8.16%)	(9.14%)
FY 2009	Int'l Airports Revenue Fund	5.99%	5.54%
FY 2009	Const Budg Resv Fund-Main Acc	5.68%	5.62%
FY 2009	Const Budg Resv Fund-Sub Acc	(15.01%)	(15.79%)
FY 2009	Retirement Hlth Ins Fund-Longter	(14.84%)	(18.61%)
FY 2009	Retirement Hlth Ins Fund-Maj Med	1.19%	.95%
FY 2009	Power Cost Equalization Fund	(13.87%)	(15.24%)
FY 2009	Int'l Airports Development Fund	6.18%	5.45%

Methodology: FY2009 one-year return data is for the period 7/1/2008 through 6/30/2009.

Analysis of results and challenges: A combination of investments that is expected to produce the highest investment return for a given amount of risk is known as a "point on the efficient frontier." Each fiduciary for a fund reviews points on the efficient frontier and selects the combination of investments consistent with their appetite for risk and return of the fund. This selection is known as the target asset allocation. Target returns assume the total rate of return of passively managed indexes invested in the same proportions as the target asset allocation. A fund's investment return will differ from its target return if its asset allocation differs from the target asset allocation or if the returns of the underlying investments differ from those of the passively managed indexes.

B1: Strategy - Portfolio Investment Officer staff is continually upgraded in experience and education.

Target #1: Increase average longevity of the investment officers to five years.

Status #1: The average longevity of the Treasury investment officers during FY2009 was 4.4 years, an increase over the prior year.

Average Longevity of Investment Staff

Fiscal Year	Number of Years
FY 2009	4.4 years
FY 2008	4.2 years
FY 2007	4.6 years
FY 2006	3.8 years
FY 2005	2.8 years

Analysis of results and challenges: A seasoned investment staff contributes to improved investment performance. Turnover of the investment officers has been minimal in the recent few years, resulting in increased longevity of investment staff.

Target #2: At least four investment staff will have their Chartered Financial Analyst (CFA) designation.

Status #2: As of the end of FY2009, five members of the Treasury investment staff have their Chartered Financial Analyst designation. This exceeds the Treasury Division's target of four.

Number of Staff Holding CFA Designation

Fiscal Year	Number of Staff
FY 2009	5
FY 2008	5
FY 2007	5
FY 2006	4
FY 2005	4

Analysis of results and challenges: The Chartered Financial Analyst (CFA) designation takes a minimum of three years to obtain. No investment staff achieved the charter during FY2009.

C: Result - Collection and disbursement of child support due to the children served by Child Support Services Division.

Target #1: Increase collections by 1.5%, net of Permanent Fund Dividend collections.

Status #1: FY2009 collections net of Permanent Fund Dividends decreased 0.08% over FY2008. The division saw a 69% increase in unemployment benefit collections; this is an indication of the downturn in the economy as more of our clients are unemployed which results in lower monthly child support payments.

Percent Change in Total Collections for a Fiscal Year

Fiscal Year	% Change
FY 2009	-0.08%
FY 2008	3.25%
FY 2007	3.66%
FY 2006	3.72%
FY 2005	1.92%
FY 2004	4.2%
FY 2003	6.2%

Analysis of results and challenges: FY2009 collections net of Permanent Fund Dividends decreased by 0.08%

over FY2008. The division attributes this decrease to the downturn in the economy. Collections overall were increased by 8.4% over FY2008, however this increase was due to the \$9.5 million additional dollars or 57% increase received in Permanent Fund Dividend payments, as well as the almost \$1.7 million in additional federal government payments received. The division is concerned about the economy and how this downturn will continue to impact collections in the coming year(s). For example, the division saw a \$1.5 million increase in unemployment insurance benefit payments; this is a significant sign of the downturn in the economy. In preparation for this the division is decreasing our target from 3% to 1.5%, which is more realistic in these times of economic hardship.

C1: Strategy - Improve the environment necessary for increased collections.

Target #1: Ensure that paternities established are at least 95%.

Status #1: The percentage of paternities established in FFY09 was 90%, a decrease of 5% from the prior year.

Percentage of Paternities Established

Fiscal Year	% Established
FFY 2009	90%
FFY 2008	95%
FFY 2007	91%
FFY 2006	98%
FFY 2005	105%

Analysis of results and challenges: Percentage of paternities established is measured by the federal government by taking the number of children statewide with paternity established or acknowledged in the current fiscal year (3,718 in FFY09) divided by the number of children born out of wedlock statewide for the prior fiscal year (4,140 in FFY08), which is 90%.

The number of paternities established since FFY 2005 continues to decrease, however the number of cases in the division needing paternity established has also decreased. This indicates that contingent factors out of the division's control are contributing to this decline; for example, cases that are still working their way through the court system, increases in the number of unwed births, or cases where no attempt is made by the family to establish paternity.

The division adjusted this target to 95% in FFY09; this is a more realistic percentage of paternities that can be established by the division based on prior year statistics.

Target #2: Increase cases with orders to 93.5%.

Status #2: The division saw a small decrease of 0.9% in the number of cases with orders when compared to the prior fiscal year.

Percentage of Cases with Orders

Fiscal Year	Cases with Orders	Change from Prior Year
FY 2009	93.0%	-0.9%
FY 2008	93.9%	0.2%
FY 2007	93.7%	0.5%
FY 2006	93.2%	0.9%
FY 2005	92.3%	7.6%
FY 2004	84.7%	3.7%

Analysis of results and challenges: A case is eligible for collection when a court or administrative order has been established. Collections cannot be made without a proper order in place. Establishing this quickly and effectively is one of the keys to a successful child support program. Reviewing and streamlining the division's process in establishing orders will aid in the timeliness of collecting and distributing child support. This measure was affected by vacancies within the division that work on establishing orders.